SG

Emerging Markets
Equity Research

Lakah Group

MENA
Egypt

INITIAL PUBLIC OFFERING

Healthcare

1 July 1999

A Unique Provider of Complete Medical Solutions

- **Company profile.** Lakah Group (Lakah) is a holding company with subsidiaries operating in the healthcare sector and diversified industrial sectors. Lakah is the **leading provider of vertically integrated medical solutions** in Egypt, with activities ranging from design, construction, finishing, equipping, servicing, and managing medical facilities.

- **New issue and use of proceeds.** The **35% capital increase** will bring E£350mn of cash into the company, the balance of which will be taken by the Lakah family. The proceeds will be used to **expand the medical business both vertically** and **horizontally.**

- **Company strategy and market positioning.** Lakah aims to become **a regional powerhouse in the medical field** by further expanding the geographic reach of its operations and by investing in new related fields such as telemedicine and medical consumables. It intends to expand the use of **medical equipment lease financing** to facilitate private sector equipment sales and create an ever larger installed base of units, a source of growth in highly profitable equipment servicing.

- **Investment risks.** We believe the investment risks are moderate. The huge **working capital requirements** of an aggressively expanding group of companies such as Lakah have to be carefully managed to avoid putting a strain on the Group's free cash flows.

- **Valuation.** We valued Lakah Group on a sum of the parts basis using a discounted Free Cash Flow to Equity Method (FCFE). The valuation resulted in a pre-capital raising fair price range of E£11.8-E£16.4 per local share and USD 10.4-USD 14.4 per GDS. Our base case scenario gave a fair price estimate of E£13.9 per local share and USD 12.2 per GDS.

Analyst

Hani R Shammah
44 171 423 1241
hani.shammah@socgen.co.uk

Patrick Vosgimorukian
44 171 423 1245
patrick.vosgimorukian@socgen.co.uk

	Consolidatesales (mn)	EBITDA (mn)	Net profit (mn)	EPS (E£)	EPSg (%)	FairPrice to EPS
1998	649.9	173.9	85.4	0.74		
1999e	1164.8	247.3	159	1.16	56	12.0
2000e	1394.5	310.4	186	1.24	7	11.2
2001e	1626.9	373.8	225.4	1.50	21	9.3
2002e	1818.7	429.4	288	1.92	28	

Based on pro-forma consolidation of the theeightoperating entities

NEITHER THIS DOCUMENT NOR ANY COPY OF IT MAY BE TAKEN, TRANSMITTED INTO OR DISTRIBUTED IN THE UNITED STATES OF AMERICA OR ITS TERRITORIES OR POSSESSIONS, NOR MAY IT BE DISTRIBUTED TO INDIVIDUALS WHO ARE U.S RESIDENTS, CORPORATIONS OR OTHER ENTITIES ORGANISED UNDER THE LAWS OF THE UNITED STATES OR ANY STATE THEREOF OR NON-U.S. BRANCHES OR AGENCIES OF ANY SUCH CORPORATIONS OR ENTITIES. THIS DOCUMENT IS BEING FURNISHED TO YOU SOLELY FOR YOUR INFORMATION AND MAY NOT BE REPRODUCED OR REDISTRIBUTED TO ANY OTHER PERSON. THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER OR INVITATION TO SUBSCRIBE FOR OR PURCHASE ANY SECURITIES AND NEITHER THIS DOCUMENT NOR ANYTHING CONTAINED HEREIN SHALL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT WHATSOEVER.

THIS DOCUMENT IS FOR DISTRIBUTION IN OR FROM THE UNITED KINGDOM ONLY TO PERSONS WHO ARE AUTHORISED PERSONS OR EXEMPTED PERSONS WITHIN THE MEANING OF THE FINANCIAL SERVICES ACT 1986 OF THE UNITED KINGDOM OR ANY ORDER MADE THEREUNDER OR TO PERSONS OF A KIND DESCRIBED IN ARTICLE 11 (3) OF THE FINANCIAL SERVICES ACT 1986 (INVESTMENT ADVERTISEMENTS) (EXEMPTIONS) ORDER 1996 (AS AMENDED) AND IT IS NOT INTENDED TO BE DISTRIBUTED OR PASSED ON, DIRECTLY OR INDIRECTLY, TO ANY OTHER CLASS OF PERSONS. THIS DOCUMENT IS BEING SUPPLIED TO YOU SOLELY FOR YOUR INFORMATION AND MAY NOT BE REPRODUCED, FURTHER DISTRIBUTED TO ANY OTHER PERSON OR PUBLISHED, IN WHOLE OR IN PART, FOR ANY PURPOSE.

Contents

Executive Summary

Group Strategy

Lakah Group's overall vision is to become **a regional medical solutions powerhouse.** They intend to achieve this by:

- **Increasing the vertical integration** of its already highly integrated medical businesses;
- As a source of **sustainable competitive advantage** through **lower costs** in turnkey projects (involving design, construction, and finishing), equipping, servicing and managing medical facilities (such as hospitals and specialised medical centres) and **quicker contract execution**, as a result of simplified logistics. The only credible competition to this company goal is a **consortium of diverse competitors;**
- Entering promising high margin businesses relating to the medical field such as medical consumables (e.g., disposable gloves and syringes);
- Maintaining and enhancing its leadership in each of its activities, itself **a form of horizontal integration**, by protecting its leading market share in Egypt and expanding further in the Middle East, North & West Africa and Turkey and telemedicine;
- this means entering new markets (e.g., Turkey for TMSE) while maintaining its dominance in the Egyptian market. This will be achieved by continuing **to offer a quality service** to customers, with a well furnished inventory, well trained (and Arabic speaking) application specialists and by implementing innovative technologies such as **telemedicine**;

Use of Proceeds

Expanding the medical business

The 35% capital increase for Lakah group will result in a E£350mn cash injection into the Group. The proceeds will be used primarily to expand the medical operations of the Group and to pay back a portion of its outstanding debt. While no specific allocations have been given, the proceeds will be used in a variety of business opportunities including:

- repaying some debt and providing capital support for the expansion of the medical equipment lease (financing) business.
- expanding the business vertically into the medical consumables area.
- developing (longer term) a network of medical centres and developing and promoting the use of telemedicine.

Valuation

Low valuation on a growth adjusted basis relative to Egyptian market

- Our base scenario in the discounted FCFE model uses an 18% cost of equity as a discount rate and terminal growth values ranging from 4% for steel to 9% for all medical entities. The 9% terminal growth illustrates our belief in the healthcare sector's long-term growth potential even over the long term. The scenario yields a fair value of E£1.6bn for the Group prior to the capital increase. This corresponds to a fair price estimate of E£13.9 per share. This corresponds to a P/E 99 divided by a 40% CAGR of 0.3 below the estimated Egyptian market PEG 99 of 0.53.

Investment Case for Lakah Group

Timely and sound strategy for a sector ....

- Sound business strategy. Strategy is designed to take advantage of the excellent fundamentals of the sector in the region. The group aims to grow with the following trends:
  - Volume of healthcare provision is large due to large under-served population in Egypt and the Middle East. The target segment for Egypt, alone, is in excess of 25mn Egyptians
  - There is growth in demand for diagnosis and limited interventional procedures rather than radical treatment, which was the case in the past. This leads to very strong growth in demand for sophisticated diagnostic medical equipment, such as scanners, in which Lakah is a leader in Egypt.

With a largely untapped growth potential

- Huge growth potential. The pace at which the government needs to expand medical facilities exceeds its budgetary limitations. This requires private involvement in investment and management. Lakah is unique in providing both.
  - To upgrade Egypt's medical facilities requires the building of new hospitals and medical centres; equipping them with high added value medical equipment, offering adequate clinical support/training followed by prompt after-sales training and service. Lakah is the only healthcare group in Egypt capable of providing this vertically integrated approach.
- We expect Lakah to deliver strong growth in its results.

Consolidated Financial Highlights

Table 1

CAGR

	Sales CAGR 99-01	EBITDA CAGR 99-01	Net Profits CAGR 99-01
Medequip	35.4%	40.2%	51.5%
TMSE	13.7%	29.0%	26.3%
MCMC	114.5%	146.8%	152.5%
Quest	24.4%	22.4%	10.6%
ASF	15.5%	9.4%	20.9%
Amitrade	45.5%	5.2%	20.1%
IIC	22.8%	22.0%	45.1%

	Sales CAGR 00-02	EBITDA CAGR 00-02	Net Profits CAGR 00-02
ICC	13.9%	14.0%	32.8%

Lakah Group	Sales CAGR 99-01	EBITDA CAGR 99-01	Net Profits CAGR 99-01
	31.5%	29.1%	40.0%

Contribution to Group sales and profits

Based on unconsolidated eight company financials

Table 2

Sales (000 EGP)

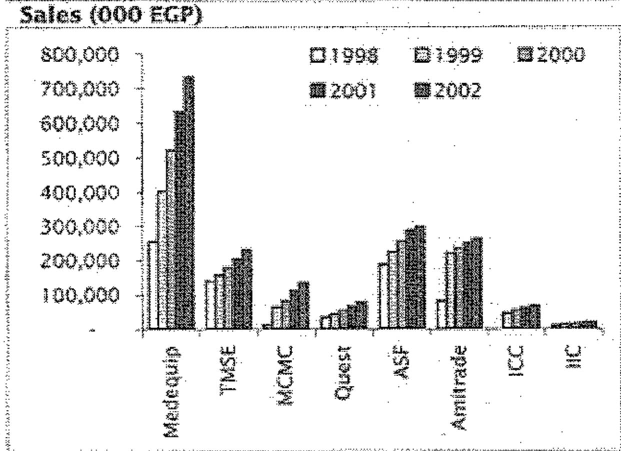
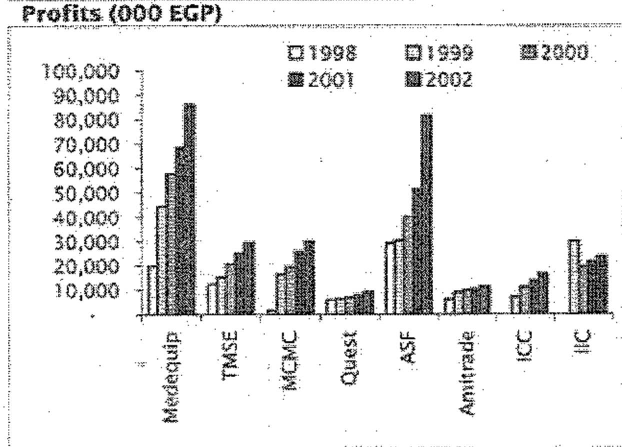


Table 3

Profits (000 EGP)



- Medequip is expected to replace ASF as leading contributor to group profits
- Breakdown of sales shows similar contribution from Medical (62%) and Industrial (38%) groups
- .....but Medical group will contribute an increasing share of profits over time.

Table 4

Contributions to Group sales 1998 (%)

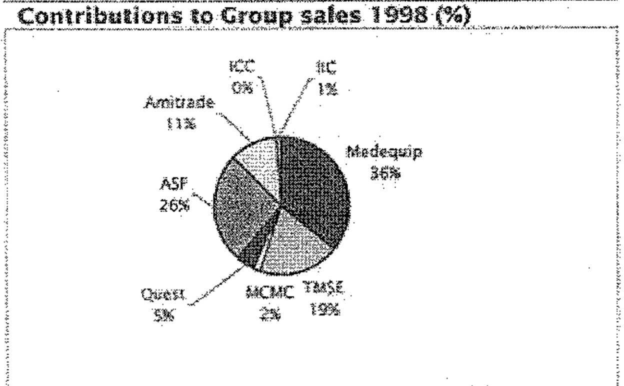


Table 5

Contributions to Group sales 2001 (%)

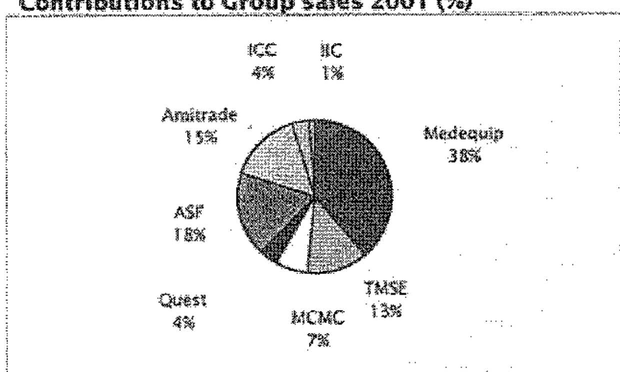


Table 6

Contributions to Group profits 1998 (%)

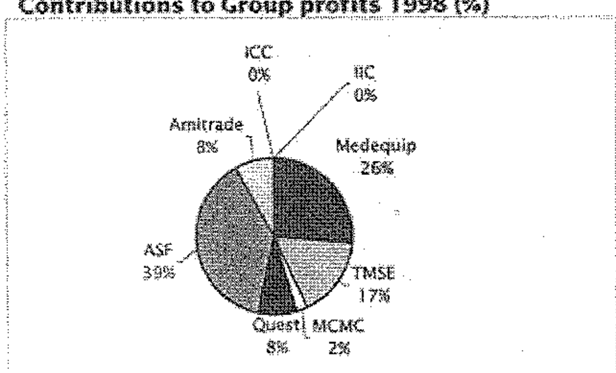
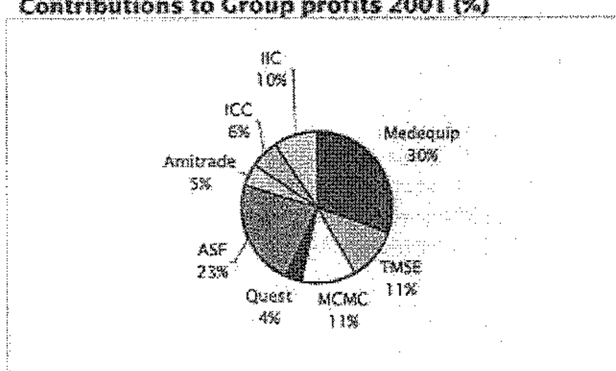


Table 7

Contributions to Group profits 2001 (%)



SWOT Analysis

Strengths

- Management with a good track record in medical equipment and servicing
- Vertically integrated medical division enhances its competitive edge
- Ability to deliver turnkey projects faster and at a lower cost than competitors
- Strong distribution network; relations with world class suppliers
- Strong financial capabilities relative to the medical equipment competition

Weaknesses

- Fast growing operations may overstretch management
- Geographical and product line diversification may also overstretch management
- Highly diversified industrials may distract management from a great medical business story
- Finding and keeping skilled human resources to achieve success in a variety of related fields (except industrial)
- Increased receivables risk resulting from rapidly growing operations, particularly lease financing activities

Opportunities

- Operating in a sector with huge growth potential in Egypt and in the region
- Private healthcare spending is picking up
- Egyptian government moving into higher healthcare spending
- Development of network of medical centres would increase its asset base, enhance its vertical integration and relieve the need to have industrial assets backing up the medical division

Threats

- Macroeconomic slowdown cannot be ruled out but this is unlikely. Impact of potential devaluation, unlikely before 2000 (if it happens), would not dramatically affect the import of sophisticated medical equipment, as such products are likely to be price-inelastic
- Competition from sophisticated local contractors (e.g., OCI and AIC) if they shift their emphasis to the medical sector, particularly if huge growth potential is evident

Valuation

Adopted Valuation Methodology

A two-stage discounted FCFE model

The dividend discount model (DDM) is not appropriate for companies, such as Lakah Group, which consists of eight operating entities, which is experiencing a high-growth phase, coupled with a zero-dividend policy during such a phase. We have used instead a two-stage, free-cash-flow-to-equity (FCFE) discount model that identifies two distinct growth phases for Lakah.

A high or solid growth first phase...

The first phase, 1999-2003, is the moderate-to-high growth phase and reflects Lakah's aggressive organic and acquisitive expansion plans. This phase is characterised by capital expenditure significantly exceeding depreciation of its property, plant and equipment.

...and a perpetual low-growth phase

The classic 'perpetual' phase is the stable (low) growth phase, which starts after 2003. This perpetual growth phase is characterised by an FCFE growth rate that does not exceed Egypt's sustainable nominal GDP growth.

We have applied a sum-of-parts approach

The adopted methodology can also be applied on the (pro-forma) consolidated financials of the eight operating entities or through a sum of the parts approach. We favour the sum of the parts method because it allows company-specific or sector specific valuation assumptions, allowing for a richer story to tell. The complexity of Lakah Group supports the choice of such methodology.

Discounted FCFE preferred to multiple-based valuation

We also favour this approach over a multiples-based approach (relative valuation). Firstly, because Lakah group is quite unique in both Egypt and the MENA region and, consequently, there are no comparable companies to make a highly accurate valuation; and secondly, because generic multiples applied to the Egyptian market or to global sectors (e.g, medical - broadly defined) also does not result in an accurate valuation. We use a growth-adjusted Egyptian market PER 99 as a sanity check. Ideally, such a multiple should also be risk-adjusted.

Key Value Drivers

Lakah Group's real strengths lies in its "complete medical solutions" formula

- ***General.*** Real GDP growth, macro-stabilisation factors.
- ***Medical Group.*** **Real GDP per capita growth, public sector health** spending, private sector demand spending both in Egypt and the Middle East, N&W Africa and Turkey region; **further privatisation** of the healthcare sector; **vertical integration** among the four medical entities ensures high **barriers to entry**; **extension** of vertical integration (e.g., medical consumables), lower bidding costs and quicker execution resulting in more contract gains (particularly turnkey projects); customer satisfaction and **superior services** thanks to proper capitalisation, investment in inventory and on-going personnel training.
- **Medequip and TMSE. a larger installed base** of medical equipment (i.e., past successes) means higher service revenues; medical focus is an edge for medical construction business.

Key Valuation Assumptions

- ***Cost of equity.*** We chose a risk-free rate of 9% and a unique equity risk premium of 9%, resulting in an opportunity cost of equity of 18%;

Bullish on the medical sector

- ***Terminal growth rates.*** we chose a 9% rate to underline the potential of this sector in Egypt and the region; a 4% terminal growth rate for the soon-to-be capacity constrained ASF; and 6% for the diverse industrial entities.
- ***Macroeconomic variables.*** Sustainable medium term GDP growth of 5.5% and inflation of 4%.

Valuation Results and Sensitivity Analysis

Table 8

Free cash Flow to Equity Valuation Results and Sensitivity Analysis

Assumptions & Results	Scenario 1	Scenario 2	Scenario 3
Opportunity cost of equity all	18%	17%	19%
Terminal growth medical	9.0%	9.5%	8.0%
Terminal growth steel	4.0%	5.0%	3.5%
Terminal growth other industrial	6.0%	7.0%	5.0%
Fair group value	1,598,954	1,885,036	1,356,787
Initial # of shares (000)	115,000	115,000	115,000
Fair price per share	13.9	16.4	11.8

Discounted Sum of Parts FCFE Valuation - Scenario 1

Company	Company Value	Group Holdings	Group Value
Medequip	461,367	97.60%	450,294
TMSE	231,402	97.80%	226,311
MCMC	215,277	97.98%	210,928
Quest Consult	47,158	97.46%	45,960
Arab Steel Factory	376,549	97.92%	368,717
Amitrade	44,576	97.02%	43,247
Industrial Consumer Co.	100,359	97.95%	98,301
Industrial Investment Co.	158,396	97.98%	155,196
Total fair equity value	**1,635,082**		**1,598,954**

Discounted Sum of Parts FCFE Valuation - Scenario 2

Company	Company Value	Group Holdings	Group Value
Medequip	543,176	97.60%	530,139
TMSE	277,610	97.80%	271,503
MCMC	258,178	97.98%	252,963
Quest Consult	64,733	97.46%	63,089
Arab Steel Factory	413,603	97.92%	405,001
Amitrade	51,006	97.02%	49,486
Industrial Consumer Co.	124,486	97.95%	121,934
Industrial Investment Co.	194,859	97.98%	190,922
Total fair equity value	**1,927,650**		**1,885,036**

Discounted Sum of Parts FCFE Valuation - Scenario 3

Company	Company Value	Group Holdings	Group Value
Medequip	386,522	97.60%	377,245
TMSE	191,132	97.80%	186,927
MCMC	177,893	97.98%	174,299
Quest Consult	31,891	97.46%	31,081
Arab Steel Factory	344,641	97.92%	337,472
Amitrade	39,927	97.02%	38,737
Industrial Consumer Co.	83,122	97.95%	81,418
Industrial Investment Co.	132,279	97.98%	129,607
Total fair equity value	**1,387,406**		**1,356,787**

Company Profile

Company Background

Involvement in the medical and steel industries dates back to the 1960s

The Lakah family has been involved in the medical and steel industries since Dr Raymond Lakah set up the business in the 1960s. After experiencing substantial growth in the 1980s, the business was passed on to his son, Mr Ramy Lakah, in 1985 who was shortly joined by his brother Mr Michel Lakah. In the mid-1990s, after expanding its business to incorporate healthcare management, construction activities and a range of other industrial investments, the Lakah family established several joint stock companies which it used to organise the business. In December 1988, the Lakah family decided to establish Lakah Holding, under Law No 95 of 1992, through which it could control its interest in each of these companies. Lakah Holding proceeded to buy a 97% stake in nine companies belonging to the Lakah family, of which it later sold one, the Scandinavian Company for Investment and Touristic Development, which it believed was not properly integrated into the group.

One of Egypt's largest private sector companies

Lakah Holding is one of Egypt's largest private sector companies and is listed on the Cairo Stock Exchange (but with no free-float). It is divided into two main groups: the medical group (60% of 1998 sales) and the industrial group (40% of 1998 sales) with four companies in each. Lakah Holding is currently the highest rated Egyptian private group, with an AA- rating by Fitch IBCA/London.

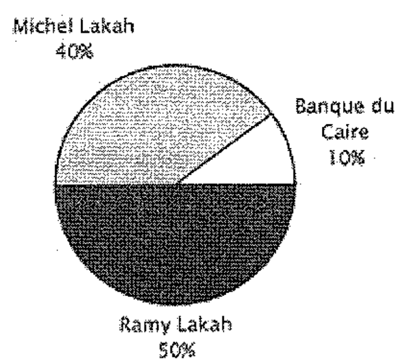
Shareholder Structure

90%-owned by the Lakah family

Prior to the capital increase, the Lakah family owns 90% of Lakah Holding separated between Mr Ramy R. Lakah (50%) and Mr Michel Lakah (40%). The group's main bank, Banque du Caire is the only other shareholder with 10%.

Chart 1

Shareholder structure



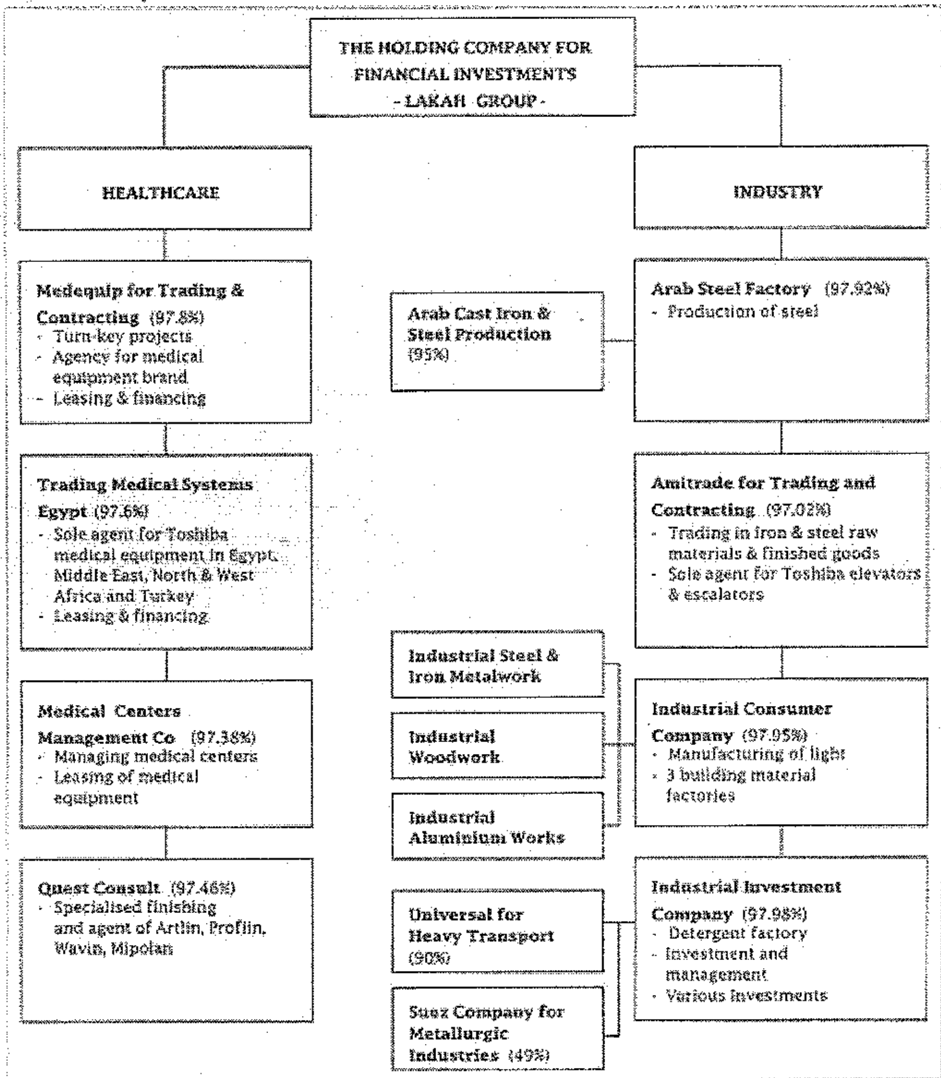
SG

Executive Directors

The Holding Company for Financial Investments, Lakah Group, S.A.E, is an entirely vertically integrated structure that is separated into two main groups: Health and Industry. Each of these groups contains four subsidiaries.

Chart 2

Lakah Group's structure



Profile of Operating Companies

The Lakah Group Holding company operates through eight subsidiaries in which it holds over a 97% stake. These subsidiaries are separated into two main groups: the medical group (over 60% of 1998 sales) and the industrial group (40% of 1998 sales), each of which has four companies.

Medequip for Trading and Contracting (Medequip)

Medequip was established in 1960 by Dr. Raymond Lakah. Medequip for Trading and Contracting (Medequip) was incorporated in 1994 as a joint stock company. The company is currently the largest supplier of medical equipment and healthcare services in Egypt. It is principally involved in the sale of medical equipment and the construction of medical facilities.

Trading Medical System Egypt (TMSE)

TMSE sells Toshiba medical equipment, the sole distributorship of which was initially granted to Medequip in 1985. TMSE was established in 1990 to focus on selling and servicing diagnostic equipment to hospitals and medical centres. In 1994, Toshiba appointed the company as its sole representative in the Middle East, North and West Africa and Turkey where TMSE has established one of the largest equipment service centres.

Medical Centres Management Company (MCMC)

MCMC was set up in 1995. It operates and manages both its own and its clients' medical facilities. It also develops specialised medical facilities. It was awarded its first major contract in 1996 by the Cairo Healthcare organisation to supply, install and operate Computerised Tomography centres in three hospitals in return for collecting 87% of revenues. MCMC supplies the equipment for free. The company signed three similar agreements in 1997 and five new contracts covering five hospitals in 1998. The public sector represents about 95% of MCMC's revenues.

Quest Consult

Quest Consult (Quest) was incorporated in 1995. It is involved in two lines of businesses: (1) completing primarily medical construction projects using building materials which are either manufactured (and distributed) or simply distributed by the company, and (2) electro-mechanical works.

Arab Steel Factory

Arab Steel Factory (ASF) is the leading manufacturer of Egyptian steel billet for sale on the local market and the only local supplier on the open market. Incorporated as a joint stock company under law 159 of 1981 in 1994, it received its licence to operate and start production in October 1997.

Amitrade for Trading and Contracting

Incorporated as a joint stock company under law 159 of 1981 on 13 December 1995, Amitrade for Commerce and Contracting's main activity is providing a range of services to its subsidiary, Arab Steel Factory (ASF), and other major steel manufacturers. These services vary from the purchase of raw materials, spare parts and consumables to the selling on of steel billets. Recently, Amitrade has also been involved in the sale, supply and servicing of Toshiba lifts, escalators and walkways.

Industrial Consumer Company (ICC)

Incorporated on 5 December 1995 as a joint stock company under law 159 of 1981, Industrial Consumer Company (ICC) manufactures and sells light bulbs and tubes. Currently the second largest manufacturer, in terms of production units, in

the sector, ICC owns one of only two factories in Egypt to have an integral manufacturing line for glass manufacture and assembly to packaging.

Industrial Investment Company (IIC)

Incorporated on 3 December 1995 as a joint stock company under law 159 of 1981, Industrial Investment Company (IIC) invests in Egyptian industrial concerns and real estate. IIC owns Detergent Company (which it leases out), the leading privately-owned detergent plant in Egypt; 90% of Universal for Heavy Transport, the leading privately-owned freight truck company operating in Egypt; 49% of Suez Company for Metallurgic, a company which produces steel rebars, beams and angles, and a range of real estate in Cairo.

Related Parties

The Lakah family has interests in numerous companies currently not in Lakah Holding group. Two of these companies have contractual relationships with Lakah Holding Group companies.

Medequip France, 93%-owned by the Lakah Family, was set up as a joint stock company in 1990 to provide consultative services to medical turnkey projects worldwide. Medequip France currently works with Medequip on several of its turnkey projects. Medequip France has three subsidiaries: Trading Medical Systems Turkey (TMST), Euro Techniques (France), and Euro Techniques Helas (Greece). TMST, which acts as a sub-distributor for TMSE in Turkey, will be sold to Lakah Holding Group as part of the underwriting agreement.

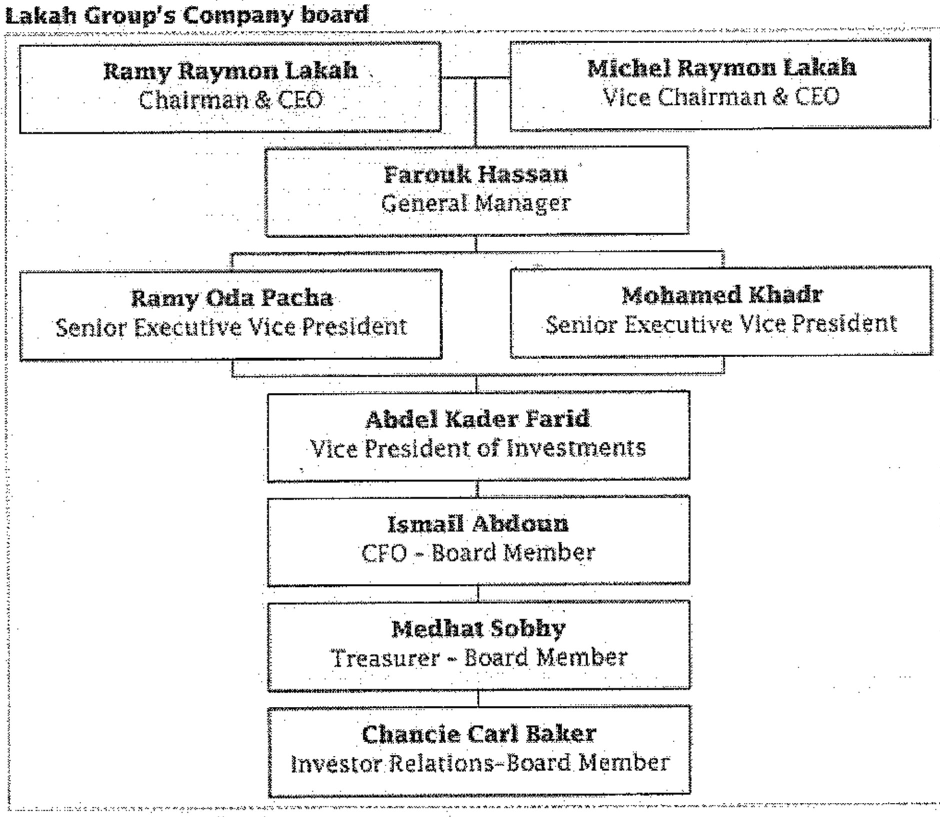
Scandinavian Company for Investment and Touristic Development was established as a limited liability company in 1990 to invest in the tourist sector. The Lakah family are controlling shareholders. Its major project, Sharm El Sheikh Swissotel, involves building a 206-room five star hotel and 11 villas. It currently has contracts with Mediquip to build Swissotel and with Amitrade for Toshiba lifts.

Company Management

Mr Ramy R Lakah, Lakah Holdings' majority shareholder, is the company's Chairman and CEO. Mr Michel R Lakah is the vice-chairman and CEO. The rest of the senior management all come from the health sector subsidiaries and are responsible for financial and operational decision-making at all eight subsidiaries.

Chart 3

Lakah Group's Company board



Healthcare Group Operations and Financials

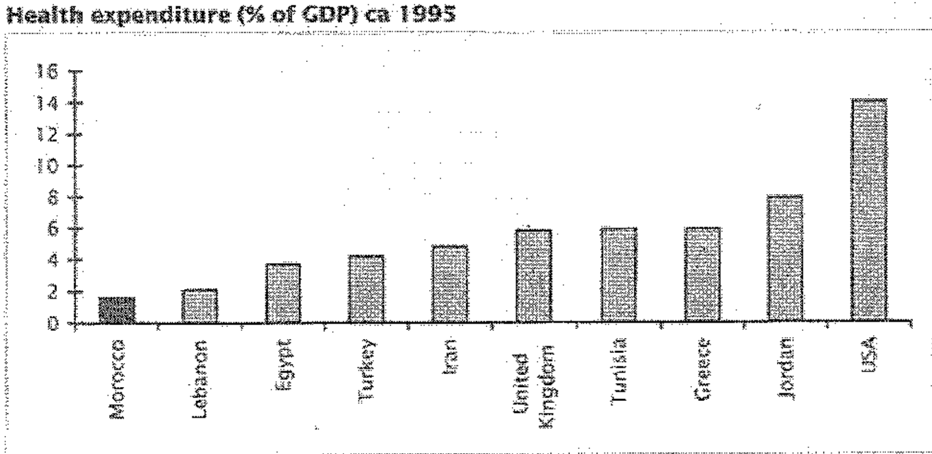
Broad Market Analysis

Over 500% increase in health expenditure per capita

In 1952, the Egyptian government promised free healthcare for everybody. Faced with an explosive population growth and the poor state of the domestic healthcare system, the government made healthcare a priority, increasing expenditure significantly. Health expenditure (as a percentage of GDP) totalled 3.7% in 1995 and is expected to reach around 5% in 1999. Over the last 30 years there has been a total increase of 500% in per capita health spending.

Chart 4

Health expenditure (% of GDP) ca 1995



Source: WHO 1999 World Health Report

In June 1998, the government launched the Health Sector Reform Programme (HSRP) which will gradually be implemented over the next 15 years. The HSRP's main objectives are:

- Improving the healthcare of all Egyptians by practising preventative medicine and making treatment more effective;
- Eliminating unwanted costs, outcome, access and quality gaps;
- Providing more appropriate and better quality services by more accurate targeting of the root causes of illness;
- Getting better value for money;
- Increasing public and private support for the system

Given the above, the government's fourth 5-year plan (1997/98 to 2001/02) clearly demonstrates the health sector's growth potential.

Table 9

Fourth 5-year plan 1997/98 - 2001/02

Function	1996/1997	2001/2002	5 year growth %
Total beds	119,463	164,000	37.3
Public central hospitals	219	268	22.4
Public rural hospitals	200	1,000	400
Total doctors	121,600	184,500	51.7
Total nurses	141,700	196,800	38.9

All four providers of healthcare will benefit from this growth:

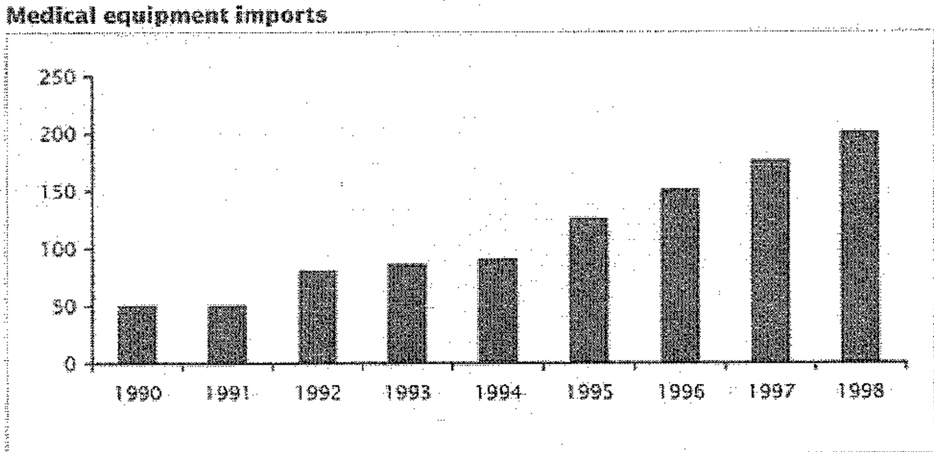
- *The Public sector* - due to a lack of well-equipped hospitals, the government aims to renovate existing facilities and build new hospitals with modern facilities.
- *The Private sector* is growing rapidly by targeting patients who previously went abroad for treatment and becoming a regional centre for sophisticated diagnostics and well-equipped hospitals.
- *University hospitals* need to be very well equipped and focus on sophisticated equipment.
- *Military hospitals* - Ministry of Defence allocates a substantial budget to equip military hospitals with the latest technology to serve both the military and civilians.

Medical imports expected to grow by 15% a year

In 1996, Egypt banned imports of second hand medical equipment, which boosted sales. Medical equipment imports, which totalled USD 206mn last year, have been growing by 20% a year for the last three years. Lakah medical group expects imports to increase by a further 15% a year until 2001.

Chart 5

Medical equipment imports



Source: Ministry of Health, Arab Republic of Egypt